“J00B01 – MDOT - State Highway Administration”

SHA RESPONSE TO DLS ANALYSIS

<u>DLS Budget Analysis Issues - Performance Analysis: Managing for Results</u>

1. Safety (Page 8)

The Department of Legislative Services (DLS) recommends that SHA comment on what impact rising gas prices will have road miles traveled and the validity of its estimates for traffic fatalities.

<u>SHA Response:</u>

<u>The impact of rising gasoline prices on vehicle miles traveled.</u> Traffic data collected at SHA’s Automated Traffic Recorder stations showed a small reduction in vehicle miles traveled during the last four months of 2005, presumably as a result of the spike in gasoline prices that occurred after Hurricane Katrina. Experience from previous sharp increases in gasoline prices in the 1970s showed that vehicle miles of travel were impacted on a short term basis, but increases in travel continued unabated over the long term as the public adjusted to higher gasoline prices.

<u>The validity of SHA’s estimates for traffic fatalities.</u> Governor Ehrlich has made public safety one of the five pillars of his Administration and made safety the highest priority of the Department of Transportation. In recognition of the Governor’s priority, the Department of Transportation established a very aggressive goal of reducing traffic fatalities by 5 percent per year between 2003 and 2006. This translated to a reduction from 651 fatalities in 2003 to 550 in 2006. In setting this goal the Department recognized that many of the factors involved in trying to reach this goal are outside the control of SHA, or even Maryland state government. However, given the importance of this issue, the Department wanted to establish a “stretch” goal, and to challenge all Marylanders to try to do their part to try to achieve it. SHA continues to aggressively fund safety-related engineering improvements, such as new and improved median barriers, traffic signal improvements, added turn lanes, ramp improvements, sight distance improvements, and pavement friction improvements. Through its Maryland Highway Safety Office, SHA proactively manages and supports a number of statewide and local traffic safety education campaigns focused on areas such as impaired driving, seat belt usage, aggressive driving, inattentive driving, young and old drivers, pedestrian safety and motorcycle safety. Investment decisions in both safety-related engineering improvements and education programs are based on technical analyses of where the greatest return on investment in reducing crashes will occur as a result of these investments. SHA also works very closely with state and local government law enforcement agencies to target their efforts where the most serious accident problems exist. Ultimately, our ability to reach this important goal is going to depend on alterations in driver behavior, including continuing to increase safety belt usage and reducing the number of persons driving under the influence of alcohol or drugs.

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The program is working given the fact that traffic fatalities have decreased from 651 in calendar year 2003 to 625 in calendar year 2005, even though state-wide vehicle miles traveled on all roads in Maryland increased from approximately 53 billion to an estimated 55 billion during this same time period. If vehicle miles of travel had not increased, calendar year 2005 traffic fatalities would equate to 602. The fact fatalities are higher than the expressed goal indicates that it will take longer to reach the goal than previously anticipated.

2. System Preservation (Page 10)

The department should comment as to why this 82% rate has not changed since 2004 and is not projected to change and what would need to occur to increase the percentage.

<u>SHA Response:</u>

SHA has established an objective of annually maintaining at least 83 % of its pavements in acceptable ride quality condition. This percentage was based on 2002 pavement conditions, which were generally considered acceptable by the traveling public and SHA pavement experts. In 2004, SHA used an asset management based predictive model to project funding levels that would be needed to maintain the target level. The projections were based on an assumption of historic rates of inflation. Following enactment of the revenue increase in 2004, funding for pavement rehabilitation was increased for the six-year capital program to the levels that were projected at that time to be needed over the six-year program period. The amount of funding added to the pavement resurfacing program as a result of the revenue increase was $235.7 million, or a 34% increase.

Since 2004 the cost of key materials that are used in pavement rehabilitation projects has increased at a rate much faster than the rate of inflation that had been assumed.

- The cost of liquid asphalt increased 70% from 2004 to 2006.
- The cost of crushed aggregate increased 30% between 2004 and 2005.
- The cost of portland cement concrete increased 30% between 2004 and 2005.
- New ADA guidelines have required that additional work be done on sidewalks when roadways are being resurfaced.
- The cost to complete a typical resurfacing project increased 47% between 2004 and 2005.

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The increased costs for resurfacing projects has limited SHA's ability to do as much resurfacing work as planned to maintain pavement conditions at the level contained in its MFR plan. In 2005, resurfacing costs were $273,000/lane-mile compared to $186,000/lane-mile in 2004. This resulted in accomplishing only 68% of the intended improvements and was a direct result of the increased costs cited above. Clearly, there is a shortfall in funding and putting any additional funds the Department receives into system preservation needs to be of the highest priority.

A longer term policy issue that also needs to be addressed is the fact that the underlying pavement on a number of critical routes is getting close to the point of failure and will require complete replacement. Continued milling and overlaying of the top surface will no longer be an effective strategy. The Capital Beltway alone would need $2 billion, which is why we are giving serious consideration to express toll lanes. SHA is further evaluating the magnitude and implications of this issue.

DLS Budget Analysis Issues – Governor's Proposed Budget

3. Funds for One Time Local Grants Appropriated But Remain Undistributed. (Page 16)

MDOT has indicated that the resources are not available to fund the one-time grants. DLS recommends that MDOT explain why an appropriation restricted solely for one-time grants in the fiscal 2006 budget is not available for distribution and comment on whether the department believes the $25.8 million restricted for the one-time grants can be utilized for any other purpose in fiscal 2006.

SHA Response:

This issue has been addressed in the response to the MDOT Overview DLS Analysis.

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SHA RESPONSE TO DLS ANALYSIS

DLS Major Issues

1. Office of Procurement and Contracts Is Proposed. (Page 25)

DLS recommends that SHA comment on what the qualifications for each district financial officer/procurement manager will be and what the broader impact of these positions will be on the procurement process and financial management.

SHA Response:

These additional positions are needed to preserve the integrity of the procurement process at SHA. The qualifications necessary for the District Finance Officer/Procurement Manager position will be a bachelor’s degree in accounting or a related field and a minimum of five years experience. The position will be expected to work closely with the Office of Procurement and Contracts (OPC) and the Office of Finance. This position will ensure that there is adherence to procurement and fiscal policies and procedures, as a result of constant and immediate interaction with District/shop personnel. It will be necessary for the individual to possess fiscal expertise in order to ensure that fiscal policies and procedures are adhered to, understand internal accounting controls, provide training and guidance in fiscal areas, as well as analyze and generate ad hoc fiscal reports. Additionally, the District Finance Officer/Procurement Manager will provide direct oversight of the District/shop budgets – both Operating and Capital. District/shop budget preparation and monitoring will be required. The position will report to the District Engineer and will allow SHA to strengthen the overall fiscal internal control environment within the Districts/shops where the highest level of purchasing activity takes place. The majority of procurement transactions that occur at SHA are at the District/shop locations with approximately 36,000 credit card transactions (representing 76% of fiscal year 2005 transactions) and approximately 7,100 purchase orders (representing 70% of fiscal year 2005).

Additionally, the Office of Procurement and Contracts was approved in fiscal year 2005 and recently established. OPC was created to provide oversight and support to the highly diversified and decentralized procurement functions that exist throughout SHA. This includes seven (7) District Offices, 28 maintenance shops, as well as many non-District Offices, located across the State. Among other duties, OPC will provide constant training and certification in support of the decentralized procurement process at SHA in order to ensure the many products and services in support of our business needs are purchased in accordance with State regulations in a timely and efficient manner.

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SHA RESPONSE TO DLS ANALYSIS

DLS Major Issues

2. Snow Removal Is Persistently Underbudgeted. (Page 26)

DLS recommends that the agency comment on why the agency underbudgets snow removal on a yearly basis rather than more accurately reflecting the actual historical cost of snow removal.

DLS also recommends that budget bill language be added expressing the intent that SHA budget for snow removal based upon the actual costs of snow removal using a rolling five-year average fiscal beginning with the fiscal 2008 allowance.

SHA Response:

The Administration respectfully does not concur with the DLS recommendation.

The snow removal budget is based on the historical amount funded since FY 1997, and the Department's policy is to prepare a budget amendment for any amounts spent in excess of this budget. While the snow removal budget may be budgeted at a level based on the minimum amount likely to be spent during a winter with relatively few winter storms, the Department believes this to be a better strategy than committing substantial funds that may remain unspent as a result of less than average snow removal requirements. The Department therefore prefers to consider shortfalls in the snow removal budget as emergency expenditures to be funded through a Department-wide contingency account reserved for emergencies or other unanticipated events or conditions.

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SHA RESPONSE TO DLS ANALYSIS

Operating Budget Recommended Actions

1. Reduce funding for 10 new positions. (Page 27) - $488,736

Add the following language:

Provided that the State Highway Administration allowance be reduced by $488,736 and the following PINs be deleted from the budget: NEW001, NEW002, NEW003, NEW004, NEW005, NEW006, NEW007, NEW008, NEW009, NEW010. These positions shall be funded through the funded vacancies currently available in the Department. The agency may transfer or reclassify positions as needed to implement the position change.

SHA Response:

SHA respectfully disagrees with the analyst's recommendation. These additional positions are needed to preserve the integrity of the procurement process at SHA. In the past ten years the size of SHA's workforce has decreased from 3,823 to 3,222 (-16%) at the same time the size of its Capital Program has increased from $536 million to $1.056 billion (+97%) and annual vehicle miles of travel have increased from approximately 30 billion to 38 billion on SHA roadways (+27%). The net result was a significant reduction of staff in all parts of the organization, including financial and procurement management and staff positions. Many of the procurement issues that came to light in the investigations reported on last year by the Office of Legislative Audits were directly the result of inadequate numbers of financial and procurement managers and staff in those parts of the organization where the vast majority of procurements take place. It would be very unwise to convert PINs that are devoted to service delivery (i.e. maintenance or project delivery) because these areas are already spread dangerously thin as a result of the cuts in positions that have occurred. SHA already has its maintenance staff maintain twice as many lane miles per maintenance employee as its benchmark states. SHA came very close to not having enough SHA and contractor resources to clear snow in the Washington metropolitan area this year. SHA has contracted out most of its engineering services to the point that consultants now have to manage consultants and it is increasingly at risk for lack of technical expertise on staff who can provide oversight to consultants. Data presented to the budget committees each of the past two years has shown that it is considerably more expensive to have consultants and contractors do engineering and maintenance activities, yet during each year additional PINs were cut. An independent workforce planning review by the University of Baltimore has concluded that SHA is at considerable risk unless it has stronger management of financial and procurement functions at decentralized locations. If SHA is to be managed to the highest levels of integrity and accountability in the financial and procurement area, it is critical that the requested PINs be approved and not taken from service delivery PINs elsewhere in the agency.

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SHA RESPONSE TO DLS ANALYSIS

Operating Budget Recommended Actions

2. Add the following language: (Page 27)

It is the intent of the General Assembly that the State Highway Administration shall budget funds for snow removal in fiscal 2008 and beyond using a rolling five-year actual historical average.

SHA Response:

Based on the explanation previously provided, the Administration respectfully disagrees with the analyst's recommendation. The snow removal budget is based on the historical amount funded since FY 1997, and the Department's policy is to prepare a budget amendment for any amounts spent in excess of this budget. While the snow removal budget may be budgeted at a level based on the minimum amount likely to be spent during a winter with relatively few winter storms, the Department believes this to be a better strategy than committing substantial funds that may remain unspent as a result of less than average snow removal requirements. The Department therefore prefers to consider shortfalls in the snow removal budget as emergency expenditures to be funded through a Department-wide contingency account reserved for emergencies or other unanticipated events or conditions.

3. Reduce funds for truck replacement. (Page 27) - $288,946

The State Highway Administration proposes to purchase 16 trucks to reduce its reliance on reimbursing individuals who operate privately owned vehicles. This reduction is necessary to address the reallocation of $29.3 million for legally restricted appropriations for one-time local grants in the fiscal 2006 budget that the department has not accounted for in its capital program or forecast.

SHA Response:

The Administration respectfully does not concur with the DLS recommendation.

The purchase of additional vehicles is part of the Administration's strategy for reducing reimbursement payments to employees for privately-owned vehicle (POV) usage, when high annual mileage is involved (i.e., greater than 10,000 miles per annum). The strategy adopted by the Administration represents both a cost-effective approach to operations and a response to a long-standing audit issue with the Office of Legislative Audits (OLA).

Operating Budget Recommended Actions

The FY 2007 allowance contains $1.4 million for 104 vehicles (light trucks) related to this effort, with funding split between the Capital and Operating Programs. These vehicles were erroneously coded in the allowance books as 89 of the more expensive extended-cab, four-wheel-drive vehicles.

The Administration believes that the one-time cost of the 104 vehicles in FY 2007 will be offset by a corresponding reduction in reimbursements for POV usage after a 4-year period, starting in FY 2007. Assuming the life cycle of the vehicles is 7 years, the projected savings over the 7-year period would be $1.6 million.

The DLS recommendation action would reduce the number of vehicles to 48 units. This reduction will not fully address the present POV reimbursement issue, but will require a phased in approach that delays the potential savings over a longer period of time.

4. Reduce funds for communication device maintenance. (Page 28) - $100,000

Reduce funds for communication device maintenance. This action provides $368,534 for communication device maintenance in fiscal 2007.

SHA Response:

SHA respectfully disagrees with this recommendation. SHA's CHART & ITS program consists of numerous ITS communication devices that provide real time monitoring of highway incidents and conditions associated with congestion, traffic accidents, roadway construction, emergency weather, evacuation routes, Amber Alert and winter snow emergencies to name a few. These devices include Closed Circuit Television (CCTV) cameras, Dynamic Variable Message Signs, pavements sensors and Highway Advisory Radio systems. Presently, SHA has 730 of these devices installed and plans to place 128 more by the end of 2007.

The enhancement request provides for the timely maintenance of these additional devices in order to provide real time traveler information to motorists. Maintenance costs continue to increase as more devices are installed and as existing devices become older.

SHA RESPONSE TO DLS ANALYSIS

Operating Budget Recommended Actions

The maintenance of these devices has been the subject of recent negative media attention due to lack of timely maintenance. Measures have been taken to improve performance, but require additional funds if these devices are to meet acceptable performance standards. Our recent heavy snowstorm illustrates the need to have these devices functioning properly. Without the devices such as weather sensors and CCTV cameras, SHA will lack the tools to effectively manage the snowstorms. Without properly functioning Dynamic Message Signs and Highway Advisory Radio Systems, SHA would not have the ability to post safety messages to the motorists.

5. Reduce funds for janitorial services. (Page 28) - $248,000

Reduce funds for janitorial services. This reduction provides funding equal to the fiscal 2006 working appropriation.

SHA Response:

SHA respectfully disagrees with the analyst's recommendation. As a result of prior position reductions by the General Assembly, SHA has had to rely more heavily on contracts for janitorial services at rest stops. The cost of contracts procured through the low bid process has increased and the budget request directly reflects the costs of these contracts. Contract costs at rest stops on I-95 in Howard County increased by $150,000 per year and at the three Frederick County rest stops by $100,000 per year. Reductions in the budgeted amounts by the General Assembly would directly result in increases in the unkempt appearance of rest stops, the amount of litter at these rest stops, and complaints from the public, particularly about the unclean rest rooms.

6. Reduce funds for technology consultants. (Page 28) - $200,000

Reduce funds for technology consultants. This reduction allows for a $300,000 increase from fiscal 2006 to 2007 for technology consultants to assist in SHA's technology projects.

SHA RESPONSE TO DLS ANALYSIS

Operating Budget Recommended Actions

SHA Response:

SHA respectfully disagrees with the analyst’s recommendation. Our requested increase in technology consultants is based on the need for additional contractor technical resources required for major IT projects currently underway and to our handling the backlog of customer requests for applications. For example, SHA plans to expand the Service Request Management System in use in one District office to state-wide use. This system is used to ensure customer requests and complaints are properly tracked and responded to in a timely manner. SHA also plans to expand the Automated Hauling Permit System to accept credit card payments. This upgrade has been requested by the trucking industry to improve the efficiency of our permitting process. Additional funding is needed to carry out these planned activities.

Based on our recently completed 5-year IT Strategic Plan, the demand from many SHA business areas for new and enhanced web-based application systems increased to compensate for their loss of PINS. For example, there are a number of current systems that require duplicate, redundant entry – such as mileage data reported for DBM purposes on one system that must be re-entered to the financial system to update budgetary expenditures.

7. Increase turnover expectancy for the agency. (Page 28) - $438,450

This increase sets the turnover expectancy to 4.3% requiring 139 vacant positions and putting it in line with historical vacancy rates for the agency. The turnover increase is to be allocated across all agency programs, and the agency is authorized to adjust turnover if funds are available and the rate of vacancy is lower than expected.

SHA Response:

SHA respectfully disagrees with the analyst’s recommendation. In response to the issue brought up by the DLS and the Budget Committees last year, the Administrator and his Deputies meet with the Human Resources staff on a weekly basis to review the status of vacancies. At the end of last year’s legislative session, SHA vacancies over 12 months old totaled 33.

Currently, there are no positions that have been vacant for more than a year. We believe our response to aging vacancies will allow us to reduce turnover below 4.3%.

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SHA RESPONSE TO DLS ANALYSIS

Operating Budget Recommended Actions

SHA will continue to emphasize filling vacancies as quickly as possible to ensure minimal impact to our service delivery. This has become increasingly significant considering the position reductions that SHA has experienced in recent years.

8. Reduce funds for overtime. (Page 28) - $200,000

Regular earnings increased 3.1% for the agency while overtime increased 6%. This reduction provides funding for overtime equal to the increase in regular earnings.

SHA Response:

SHA respectfully disagrees with the analyst's recommendation. Additional overtime is directly related to maintaining a safe roadway system, increased emergency response needs, and responding to customer requests and complaints. Some of these overtime activities include responding to non-functioning traffic signals, utility call-outs, pot hole repairs, and CHART emergency incidence responses, such as HAZMAT spills and accidents. Increasingly, we are finding that planned maintenance events that involve lane closures must be performed at night in order to minimize traffic congestion. In addition, the impact of position cuts imposed by the General Assembly has directly resulted in the need for increased overtime.

SHA proactively manages overtime. The Deputy Administrator for Operations reviews biweekly overtime reports and the Administrator reviews monthly overtime reports. Any material changes are investigated.

9. Add the following language (Page 28):

Provided that $1,000,000 of this appropriation, made for the purpose of distributing the share of revenues from the Gasoline and Motor Vehicle Revenue Account to Prince George's County (i.e., highway user revenues) shall be deducted prior to the distribution of funds to the county and be retained by the Transportation Trust Fund. The deduction would occur after the deduction of sinking fund requirements for county transportation bonds from highway user revenues.

SHA Response:

The Administration concurs with the budget bill language.

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SHA RESPONSE TO DLS ANALYSIS

PAYGO Budget Recommended Actions

1. Reduce funds for replacement vehicles. (Page 29) - $660,000

This reduction would reduce funds for the SHA to purchase vehicles to reduce reimbursement payments for individual's use of private vehicles. This reduction is necessary due to the reallocation of $29.3 million for legally restricted appropriations for one-time local grants in the fiscal 2006 appropriation that the department has not accounted for in its capital program or revenue forecast.

SHA Response:

Response to this recommended action was addressed in the Operating Budget portion of this document. The response is being repeated below and is the same for the Capital Program portion of the recommended action.

The Administration respectfully does not concur with the DLS recommendation.

The purchase of additional vehicles is part of the Administration's strategy for reducing reimbursement payments to employees for privately-owned vehicle (POV) usage, when high annual mileage is involved (i.e., greater than 10,000 miles per annum). The strategy adopted by the Administration represents both a cost-effective approach to operations and a response to a long-standing audit issue with the Office of Legislative Audits (OLA).

The FY 2007 allowance contains $1.4 million for 104 vehicles (light trucks) related to this effort, with funding split between the Capital and Operating Programs. These vehicles were erroneously coded in the allowance books as 89 of the more expensive extended-cab, four-wheel-drive vehicles.

The Administration believes that the one-time cost of the 104 vehicles in FY 2007 will be offset by a corresponding reduction in reimbursements for POV usage after a 4-year period, starting in FY 2007. Assuming the life cycle of the vehicles is 7 years, the projected savings over the 7-year period would be $1.6 million.

The DLS recommendation action would reduce the number of vehicles to 48 units. This reduction will not fully address the present POV reimbursement issue, but will require a phased in approach that delays the potential savings over a longer period of time.